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SUBJECT: EASY MONEY AND A WELFARE-STATE MENTALITY CREATE
ONE OF QATAR'S MAJOR SOCIAL CHALLENGES

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Classified By: CDA Michael A. Ratney, reasons 1.4 (b) and (d).

¶1. (C) SUMMARY. Qatar's impressive economic growth over the past few years has been accompanied by increasing economic and social challenges, particularly soaring levels of consumer debt. Meanwhile, the government is trying to wean its citizenry off a welfare state mentality but its own policies and the lack of public financial awareness undermine this goal. This unhealthy mix of easy money and a paternalistic government poses a major challenge to a country that provides remarkable educational opportunities to its citizens while offering few incentives to work hard and spend responsibly. END SUMMARY.

By the Numbers, an Impressive Story

¶2. (U) Qatar's economy is the fastest-growing in the Middle East -- GDP growth has averaged over 15 percent for the past five years, with a 2006 GDP of $52.7 billion. Qatar's wealth is based on oil revenues and, increasingly, profits from massive development over the past decade of its natural gas reserves; Qatar has the largest non-associated gas field in the world and the third-largest reserves of natural gas. The country's sovereign wealth fund -- the Qatar Investment Authority (QIA), established only in 2005 -- is already estimated to control over $60 billion in assets and has made high profile investments throughout Europe, the Middle East, and Asia.

¶3. (U) Reports on Qatar often highlight that the country has one of the highest GDP per capita rates in the world, averaging over $62,000 in 2006. Economists generally agree, however, that this statistic obscures more than it reveals, as Qatar's wealth is unevenly distributed. First, a high percentage of national income -- particularly the proceeds from oil and gas -- goes to the government. Second, Qatari citizens only account for less than one-fifth of Qatar's estimated population of over 1 million people, so the number of people who benefit from official "welfare" programs is relatively small. Personal income in Qatar generally falls into four categories: Asian laborers eking out an existence, Western and other expatriates making a comfortable living working in management and advisory roles, average Qataris getting by on a government job and state welfare benefits, and well-connected Qataris who have significant business interests and multiple sources of income.

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The Disease of Luxury: Economic and Social Challenges
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¶4. (SBU) Qatar's rapid wealth poses several challenges to the country's social fabric and economic stability. First, inflation has become the Achilles heel of Qatar's economy and is currently running at 14 percent. As reported in reftel, double-digit inflation has become the norm over the past few years and is taking its toll on expatriate labor, including Embassy staff, as housing and other costs double but salaries stay relatively static. Anecdotally, Emboffs constantly hear of Qataris and expatriates taking loans to maintain their standard of living.

¶5. (C) Second, Qatar is caught between the need to import massive numbers of workers to fuel the booming economy and the danger that Qataris will become even more outnumbered in their own country, leading to pressures for greater political participation or social unrest. Indeed, the country has attracted hundreds of thousands of laborers from South Asia to work in construction and other services over the past few years. Economic Advisor to the Amir Dr. Ibrahim Al-Ibrahim told Charge in February that the national hospital system conducted over 400,000 health checks for new arrivals in a 12-month period alone. Qatar's sponsorship law is under scrutiny from the USG and others due to practices that contribute to abuse and trafficking in persons. Qataris are wary of altering the law, however, as this is perceived as relaxing control over a tenuous situation. Government officials have begun to express fear that the combination of high inflation and a falling dollar (and therefore, lower real wages and remittances) will lead to social unrest. For example, in a December meeting with Charge, Minister of State for Energy and Industry Dr. Mohammad Al-Sada cited recent labor problems in the UAE and expressed concern that the dollar's weakness will become a security issue in Qatar.

¶6. (C) The high inflation and worries over labor unrest are prompting calls to revalue Qatar's currency, which has been pegged to the U.S. dollar at a constant rate since 1980. While our Central Bank interlocutors insist that no decision is imminent and any revaluation would be taken in concert with other Gulf states, key Qatari decision-makers, including Dr. Ibrahim and the Prime Minister and Foreign Minister Hamad Bin Jassim Al Thani, have said recently the GOQ is studying currency revaluation and called for monetary policy changes.

¶7. (SBU) Third, Qatar is caught between the expectations of a citizenry accustomed to the welfare state and the demands of the global economy. The GOQ's benefits for Qatari citizens include interest-free housing loans, access to free land, free higher education, free water and electricity, and the ability to petition the Amiri Diwan for help during times of financial trouble. There are also regular stipends for members of the ruling Al Thani family. Qatar's leadership recognizes that the hydrocarbon-based largesse of the last few years may not last forever and is trying to diversify the economy and build an educated workforce. However, the state's generous welfare benefits and common public perception that easy government jobs will be available for all makes it difficult to motivate young people to work hard and obtain an education relevant to a knowledge economy.

¶8. (SBU) The Amir's wife, Sheikha Mozah, has had the vision to support educational reforms at all levels, including the introduction of independent schools for children and Education City for college students (Note: Education City hosts branch campuses of six U.S. universities and offers the same degree and standards as their parent institutions in the U.S.). However, Education City has thus far only touched a fraction of Qatari youth and motivating young men to study has proven particularly challenging.

¶9. (C) The government's drive for "Qatarization" -- which mandates 50 percent Qatari employment at all levels of an organization -- has furthered the sense of entitlement and created artificial demand, particularly in the private sector, for Qatari workers who are not necessarily qualified. Sheikha Hanadi Al Thani, Chairperson of Amwal (Qatar's first and largest investment bank), told Charge in December that

the GOQ recently produced an internal paper on the level of qualified Qataris in higher management but was shocked to find such a small proportion that it forbade publication of the study. Qualifications aside, achieving full Qatarization is statistically impossible given the size of Qatar's economy and current demographic realities. Several well-connected Qataris have acknowledged this privately to Emboffs but the GOQ appears unsure how to manage the process of changing public perceptions. For now, the government is trusting education reform to help it -- in Sheikha Hanadi's pithy phrase -- "stop creating jobs for nationals and start creating nationals for jobs."

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Consumer Debt Causing Cracks in Qatar's Economic Foundation
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¶10. (U) Despite extensive welfare benefits and easy access to jobs, many Qataris find themselves stretched beyond their means. Most observers say the rapid increase in wealth has created a "keeping up with the neighbors" mentality resulting in high levels of spending on cars, vacations, and consumer goods.

¶11. (U) Recent press reports have highlighted a growing trend of consumer debt. For example, a January article in local Arabic daily Al-Raya reported that 90 percent of bank loans for vehicles and house construction are taken out by Qatari citizens. The Central Bank reported that outstanding bank loans in 2007 equaled 160 billion Qatari riyals (44 billion USD); this is a 69 percent increase from the 94.7 billion Qatari riyals (26 billion USD) in outstanding loans at the end of 2006. A separate January article in the English-language daily The Peninsula cited Saeeda Kash, a lawyer for a local bank, who said she was referring about 20 default cases a month to the civil courts. She noted: "It is not because of the rising cost of living that people are using credit cards to meet their basic expenses and getting trapped in debt. The defaults are basically resulting from a lack of awareness about how the credit card system works and how interest is calculated. People tend to spend beyond their means when they have access to a credit card."

¶12. (SBU) Qatar's growing financial services industry has also created a host of new opportunities for Qataris to gain, and lose, money. Banks allow Qataris to borrow up to 70 percent of their annual salary as a personal loan (though many Qataris have other sources of income, such as sponsoring

foreigners or owning businesses, so this may not represent their total income). Investing in the increasing number of private companies listed on the Doha Securities Market (DSM) has also become a popular pastime for Qataris. The market has been subject to wide swings, however, and anecdotally Emboffs sense that many Qataris make impulsive and ill-informed investment decisions. Moreover, an increasing number of sophisticated financial products have confused the many Qataris new to investment.

Lack of Financial Savvy

¶13. (C) QIA Managing Director Dr. Hussein Al-Abdulla recently bemoaned to Charge the lack of investment awareness and stronger consumer protection safeguards in Qatar. For example, he cited an investment salesman who had been shunned by QIA but was nonetheless successful in soliciting large private investments from Qataris by falsely playing up an affiliation with QIA (Note: Despite this example, the lack of transparency for QIA investments would make it hard for Qataris without inside information to know for sure whether or not the fund was investing in a specific project.). In a separate conversation with P/E Chief and Econoff, Al-Abdulla said that one reason the QIA keeps its assets and profits secret is that the GOQ fears that if the true amount was

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known the Qatari public would pressure the government to spend the money now or distribute it to nationals.

¶14. (C) Sheikha Hanadi noted that Qatari personal indebtedness "goes hand-in-hand" with the DSM, as nationals are putting a lot of money into listed companies, and banks engage in profligate lending which fuels speculative investments. She claimed that during a sharp downturn in the DSM in 2006, there was strong pressure on the government to "rescue" listed companies. She added that other Gulf countries experiencing similar downturns, such as the UAE and Kuwait, bought shares in troubled companies to lift the market, though the GOQ did not engage in this practice "except maybe a little under the table."

¶15. (C) In a December meeting with Econoff, Saif Khalifa Al-Mansoori, the DSM's Acting General Manager, acknowledged that many Qatari investors make uneducated financial decisions and noted that the Qatar Financial Markets Regulatory Authority is considering offering public seminars to educate citizens on how to invest by analyzing companies' financial performance. (NOTE: Post is examining opportunities to help provide Qatar with investment awareness and consumer protection training, for example through the Financial Services Volunteer Corps).

¶16. (C) The credit squeeze and deceptive credit practices have not only hit the citizen population, but the large expatriate population as well. The Ambassador of the Philippines told Poloff March 2 that among the most significant problems within the Filipino community in Qatar are personal consumer loans. He said Filipino workers in Qatar are offered easy credit from local institutions; they only need their work sponsors' approval, which is often granted. The terms of the loans often surpass their contract period in Qatar and the interest rates are often deceptive. Rather than conventional loans, where the borrower pays interest on the remaining balance, some institutions in Qatar charge interest on the total loan amount for the entire period of the loan, resulting in much higher annual percentage rates than expected. Even though some of the borrowers use the loans to send money to their families, many will not be able to pay back their loans. Foreigners who owe money to a financial institution will normally not be allowed to leave the country until the debt is paid, putting the borrower into very vulnerable situations.

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COMMENT: Lots of Money, Little Motivation or Responsibility
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¶17. (C) The rapidly increasing opportunities for loans from banks and credit cards, questionable investment opportunities on the DSM, and complicated financial products has created a dangerous mix of easy money and high risk. Qatar's educational system and cultural milieu have not done a good job of imparting to citizens skills that would make them financially savvy or independent, and most Qataris believe the government will ultimately take care of them. Qatar is wealthy enough that this dynamic poses little threat to the country's economy. But it does pose a massive social challenge to a Qatari leadership seeking to instill a work ethic and create a culture of responsibility worthy of the

remarkable educational opportunities this country's citizens enjoy.

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